

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00  
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 STR-07 HEW-04  
AGRE-00 /087 W

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R 021628Z JUN 78  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 3256  
INFO USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 ROME 10262

E.O. 11652: GDS  
TAGS: OCON  
SUBJECT: GENEVA GROUP MEETING, MAY 26

1. GENEVA GROUP ROME MET MAY 26 TO REVIEW SITUATION WITH RESPECT TO ITS EFFORTS ON 1980-81 BUDGET. REPORT FROM FINANCE SUB-COMMITTEE INDICATED THAT ADG WEST WAS STILL UNDER CONSIDERABLE RESTRAINT FROM DG WITH REGARD TO ANY MEANINGFUL DIALOGUE ON BUDGETARY METHODOLOGY WHICH ITALIAN DEP REP HAD ATTEMPTED TO INITIATE ON ISSUE OF COSTING INFLATION. REPORT FROM FIELD ACTIVITIES SUB-COMMITTEE PINPOINTED FOUR AREAS OF POTENTIAL BUDGETARY GROWTH: TECHNICAL COOPERATION, COUNTRY REPRESENTATIVE, OVERHEAD COSTS AND REGIONAL OFFICES AND ONE NON-RECURRING COSTA AREA - THE 1979 CONFERENCE ON AGRARIAN REFORM.

2. GROUP, WHICH (1) AWARE OF REASONABLY FAVORABLE LINER REPORT TO DG ON TECHNICAL COOPERATION PROGRAM (2) ASSUMED THAT DG WOULD NOT STOP SHORT OF HIS CONFERENCE - AUTHORIZED 47 COUNTRY REPRESENTATIVES, AND (3) SAW OVERHEAD ISSUE AS SOMEWHAT OUT OF ITS HANDS, AGREED THAT REGIONAL OFFICES PERHAPS PROVIDED BEST AREA FOR POSSIBLE PROGRAM REDUCTIONS IN A 1980-81 BUDGET IN WHICH WE COULD PROBABLY NOT BE ABLE TO DO MUCH MORE THAN HOLD TCP AND COUNTRY REPRS PROGRAM AT 1979 LEVELS. SEVERAL REPS  
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NOTED THT WE WOULD PROBABLY HAVE DIFFICULTY HEADING OFF RECOMMENDATIONS BY 1978 REGIONAL CONFERENCES FOR FURTHER STRENGTHENING OF REGIONAL OFFICES (20 POSITIONS ADDED IN 1978-79 BUDGET IN PLACE OF 19 REDUCED FROM ROME HEADQUARTERS).

3. GROUP, WHICH WAS STRENGTHENED BY APPEARANCE OF NEW FRENCH REP BATTAULT AGREED IN GENERAL WITH US REP'S PROPOSAL

THAT, IN CIRCUMSTANCES IN WHICH WE COULD NOT COUNT ON IMPACT OF DIALOGUE ON BUDGET AND IN LIGHT OF FRESH MANDATE FROM CONSULTATIVE LEVEL GENEVA GROUP, IT SHOULD PURSUE THE EFFORT TO ARRIVE AT A COMMON POSITION ON LIMITS OF REAL PROGRAM GROWTH. DIFFICULTY OF THIS BECAME APPARENT WHEN SEVERAL MEMBERS URGED CAUTION ABOUT TOO ABRUPT AN APPROACH TO FAO/DG ON A REAL PROGRAM GROWTH LIMIT AND OTHERS INDICATED LIKELY NATURE OF THEIR INSTRUCTION ON THIS POINT (BELGIUM - ZERO GROWTH; UK - UP TO 6 PER CENT REAL GROWTH PER ANNUM).

4. GROUP AGREED WITH U.S. REP'S SUMMATION THAT WITH EVIDENT DISPARITY IN APPROACH WITHIN ITS MEMBERSHIP IT WOULD BE OBVIOUSLY SOME TIME BEFORE A COMMON POSITION ON REAL PROGRAM GROWTH COULD EVOLVE; THEREFORE, NO ONE NEED FEAR A PRECIPITATE ONSLAUGHT ON DG. WE WOULD ALSO HAVE TIME, WHILE WORKING OUT COMMON POSITION IN SUB-COMMITTEE ON FIANCE, TO CONTINUE EFFORTS AT DIALOGUE WITH FAO ON BUDGETARY METHODOLOGY, TAKING CARE TO DO SO AS INDIVIDUAL MEMBERS OF FAO, RATHER THAN AS REPRESENTATIVES OF GENEVA GROUP.

5. GROUP ALSO HEARD REPORTS ON FINANCE AND PROGRAM COMMITTEES FROM UK AND U.S. REP RESPECTIVELY. LATTER ILLUSTRATED, FOR BENEFIT OF COUNTRIES INVOLVED IN UNDP COUNCIL CONSIDERATION OF OVERHEAD COSTS, PAINS HE HAD TAKEN NOT TO ASSOCIATE PROGRAM COMMITTEE FULLY WITH DG'S ASSESSMENT OF CONSEQUENCES OF APPLYING CRITERIA IN JIU NOTE ON OVERHEAD. FORMER NOTED, CONFIDENTIAL

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INTER ALIA, DG'S SUGGESTION TO FINANCE COMMITTEE THAT A COMMITTEE MIGHT BE FORMED TO LOOK AT QUESTION OF NEW FAO BUILDING. US REP STRESSED IMPORTANCE OF GENEVA GROUP RECEIVING BRIEFING FROM ITALIAN PERMREP ON FINANCIAL ASPECTS OF THIS ISSUE WELL IN ADVANCE OF FALL FINANCE COMMITTEE MEETING AND ITALIAN DEP REP WEARILY AGREED. (HE LATER REPEATED TO ITALIAN REP BORIN U.S. OPPOSITION TO BUILDING PROJECT).

6. FOLLOWING GG MTG, US REP LUNCHEDED WITH ADG WEST, WHO REFLECTED SOME CURRENT DISCONTENT BY DG OVER FACT THAT U.S. REP HAD BALKED IN PROGRAM COMMITTEE AT FULL ENDORSEMENT OF FAO ASSESSMENT OF JIU NOTE ON OVERHEAD COSTS AND HAD BLOCKED ENDORSEMENT OF STEPS DG HAD TAKEN TO MOVE INDUSTRY COOPERATION PROGRAM OUT OF FAO. WEST MADE MUCH OF DG'S SUCCESS AT KEEPING POLITICAL ISSUES OUT OF FAO (ESPECIALLY PLO ISSUES) AND LAMENTED FACT THAT, DESPITE THIS, U.S. WAS PRESSING TOUGH LINE ON BUDGET (AND, INFERENTIALLY, GIVING DG LESS THAN FULL SUPPORT ON ISSUES SUCH AS OVERHEAD). U.S. REP, RATHER THAN PURSUE FURTHER EFFORTS TO ESTABLISH GENEVA GROUP DIALOGUE WITH WEST, ASKED INSTEAD FOR DATA SUPPLIED ONE DAY LATER, ON PROBABLE 1980-81 COSTS FOR COUNTRY REPS AND REGIONAL OFFICES (WHOSE REAL VALUE WEST CHALLENGED US TO IDENTIFY IN LATTER CASE).

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C O N F I D E N T I A L SECTION 2 OF 2 ROME 10262

7. US REP ALSO PURSUED TCP ISSUE WARNING THAT, DESPITE LINNEN FINDINGS, HE DOUBTED WHETHER ALL ACTIVITIES CARRIED OUT UNDER THE FOUR TCP CATEGORIES NEEDED TO BE UNDER REGULAR BUDGET TCP RUBRIC. WEST, SURPRISINGLY, PROMPTLY AGREED, NOTING WITHOUT ARGUMENT LINNEN'S CALL FOR KEEPING TCP SMALL AND FOR LIMITATION ON "MISCELLANEOUS" CATEGORY WITHIN TCP. FURTHERMORE, HE COMMENTED THAT TCP ACTIVITIES RELATED TO FACILITATING OR PREPARING INVESTMENT COULD CONCEIVABLY BE CARRIED OUT UNDER THE FAO/IBRD INVESTMENT CENTER RATHER THAN UNDER TCP; TRAINING OF A "GRASS ROOTS" NATURE HE DESPAIRED OF AS A VIABLE FAO ENTERPRISE PARTICULARLY ON A SHORT TERM BASIS STATING IT COULD REALLY ONLY BE JUSTIFIED WHEN LINKED TO SHORT-TERM EMERGENCY NEEDS. IN EFFECT, HE SEEMED TO BE DEFINING A CONCEPT OF TCP WHICH IS CLOSE TO OUR EMPHASIS ON THE EMERGENCY CATEGORY, ALTHOUGH HE AVOIDED INDICATING THAT ITS NOMENCLATURE COULD BE SHIFTED IN THAT DIRECTION. WEST SAID DG HAD DECIDED NOT TO RELEASE LINNEN REPORT "AS THIS COULD REDUCE OBJECTIVITY OF SUBSEQUENT REPORTS OF THIS KIND TO DG." (SIC)

8. ON THE OVERHEAD ISSUE ON WHICH HE PLANNED TO REPRESENT FAO AT THE UPCOMING MTG OF THE UNDP WORKING GROUP, WEST STATED THAT HIS DRAFT COMMENTARY ON THE JIU NOTE (GIVEN TO PROGRAM COMMITTEE MAY 3 AND IMMEDIATELY POUCHED TO GENEVA  
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AND IO) HAD BEEN ACCEPTED BY OTHER ACC AGENCIES WITH MINOR CHANGES TO ACCOMMODATE UNIDO WHICH HAS A LARGE NUMBER OF SMALL PROJECTS TO ADMINISTER. WEST INTIMATED THAT, IN HIS VIEW, APPLYING THE ECONOMIES OF SCALE ARGUMENTATION TO AGENCIES HANDLING OVER \$100 MILLION ANNUALLY IN UNDP FUNDS HAD SOME VALIDITY BUT ADDED THAT HE HAD BEEN GIVEN NO LATITUDE TO NEGOTIATE IN THIS DIRECTION. HE CONTINUED TO DEPLORE REST OF JIU APPROACH AS FAR TOO COMPLEX AND IMPOSSIBLE AS A MODEL TO BE APPLIED TO FAO'S LARGE AND VARIED TRUST FUND OPERATIONS. US REP NOTED ONLY THAT POSITION IN DG'S LETTER ON OVERHEAD SEEMED SOMEWHAT OF A "WORST CASE" APPLICATION OF JIU NOTE CRITERIA, OMITTING JIU'S STABILIZATION FACTOR AND THAT WHILE IT MIGHT BE UNDERSTANDABLE AS DG'S NEGOTIATING OPENER, HE COULD NOT FULLY ASSOCIATE US WITH IT IN PROGRAM COMMITTEE. U.S., MEANTIME, WAS NOT ASSOCIATED WITH JIU NOTE, WHOSE MULTIPLE CRITERIA IT ALSO REGARDED AS CREATING AN OVERLY COMPLEX MECHANISM. WE DID, HOWEVER, FAVOR FURTHER PURSUIT OF OVERHEAD EXERCISE AND WOULD NOT BE PREPARED AT THIS TIME TO SHELVE THE EFFORT AND RE-ENDROSE FLT 14 PER CENT REIMBURSEMENT SYSTEM.

9. COMMENT: FOREGOING DEVELOPMENTS BRING US TO FOLLOWING CONCLUSIONS REGARDING GENEVA GROUP EFFORTS TO CONTAIN 1980-81 BUDGET.

(A) GETTING AT FAO BUDGETARY PROCESSES FROM INSIDE WILL BE SLOW BUSINESS; HOWEVER, IF WE EXERCISE OUR PREPROGATIVES AS A 25 PERCENT CONTRIBUTOR, RATHER THAN AS MEMBER OF GENEVA GROUP, WE CAN ASK QUESTIONS AND GET ANSWERS. PROBLEM WILL BE TO SELECT QUESTIONS CAREFULLY AND RELEVANTLY AND WE WILL NEED IO HELP. (B) PARALLEL STRATEGY OF ARRIVING AT AGREED GENEVA GROUP INDICATIVE REAL PROGRAM GROWTH PERCENTAGE WILL BE DIFFICULT UNLESS WE CAN GET BETTER UK AND DUTCH COOPERATION. TO ASSESS OUR PROSPECTS, WE RECOMMEND A QUERY TO UK FOREIGN OFFICE  
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AS TO WHETHER THEY ARE SATISFIED HANDLING THIS ISSUE WITHIN FRAMEWORK OF JUDITH HART'S AID AGENCY WHICH APPARENTLY TAKING VIEW: "WE PREPARED INCREASE OUR OVERSEAS PROGRAMS 6 PERCENT/ANNUUM IN THE EARLY 1960'S; THEREFORE, WE'RE RELAXED IF FAO'S BUDGET AND UK CONTRIBUTION TO IT GO UP AT THAT RATE." AT VERY LEAST, QUESTION COULD BE ASKED IN LONDON WHETHER UK HAS WEIGHED RELATIVE EFFECTIVENESS OF DIFFERENT CHANNELS THROUGH WHICH ITS ASSISTANCE MONEY GOES AND WHETHER THEY MIGHT NOT BETTER ACHIEVE THEIR ENDS THROUGH FOCUS ON UNDP CONTRIBUTION OR FAO TRUST FUNDS RATHER THAN THROUGH APPLYING SIX PER CENT APPROACH TO REGULAR BUDGET.GARDNER

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## Message Attributes

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